

**BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2019-281-S**

IN RE:

Application of Palmetto Utilities, Inc. for
adjustment of rates and charges for, and
modification to certain terms and conditions)
related to, the provision of sewer service.)

PREFILED DIRECT TESTIMONY
OF
RALPH WALKER
ON BEHALF OF PALMETTO
UTILITIES, INC.

Q. PLEASE STATE YOUR NAME, PRESENT POSITION, AND BUSINESS ADDRESS.

A. My name is Ralph Walker. I am the President of the Energy and Infrastructure Division of Pacolet Milliken, LLC (“Pacolet”), the owner of Ni Pacolet Milliken Utilities, LLC (“Ni”) and all of its subsidiaries, which includes the applicant, Palmetto Utilities, Inc. (“PUI”) and Palmetto Wastewater LLC (“Alpine/Woodlands”). Prior to its merger into PUI, this also included Palmetto of Richland County LLC (“PRC”). My primary business address is 550 South Main Street, Greenville, SC 29601.

Q. WHAT IS YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND?

A. I graduated from University of South Carolina with Bachelor of Science in Business Administration. Before joining Pacolet, I was the president and founder of Peregrine Energy Corporation. Peregrine directly invested over \$75 million in industrial utility infrastructures. Prior to Peregrine, I founded Aquenergy Systems, Inc. (later sold to Consolidated Hydro), which was the largest independent developer and operator of hydroelectric projects in the southeast United States. As the President of the Energy and infrastructure Division of Pacolet, I have direct responsibility for Ni Pacolet.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to provide the Commission with pertinent background regarding Pacolet and its indirectly held regulated operating subsidiaries, investments in them, their responsiveness to service and environmental needs, our concerns with the

1 treatment received from the Office of Regulatory Staff in the ratemaking process, and the
2 results realized from our investments.

3
4 **Q. DESCRIBE PRC'S BACKGROUND AND SERVICE TERRITORY BEFORE THE 2017 MERGER.**

5 A. PRC's service territory was a geographic area served by the City of Columbia (the "City")
6 located outside its municipal limits and was acquired in 2013 for \$18 million (via the
7 newly-formed PRC entity). The physical assets acquired consisted solely of the territory's
8 collection facilities, which needed substantial capital investment. The City's rationale for
9 selling was (1) the facilities were in need of maintenance (2) it did not have the capital to
10 fix the system and (3) the City wanted revenues to fund its Bull Street baseball complex.
11 Under the contract approved by the Commission in Order No. 2012-960, PRC initially
12 contracted with the City to treat its wastewater and read meters. However, per this contract,
13 and beginning April 1, 2016, the cost of the City's wastewater treatment services increased
14 by 126% -- a prohibitively expensive rate designed to force PUI off the City's treatment
15 system. The treatment contract with the City was terminated in 2018 when the PRC began
16 piping its influent to PUI's Spears Creek wastewater treatment plant (the "Spears Creek
17 WWTP").

18
19 **Q. PLEASE DESCRIBE ALPINE/WOODLANDS' BACKGROUND AND SERVICE TERRITORY.**

20 A. Alpine/Woodlands was acquired in 2011 with Commission approval that was premised on
21 fixing a severely broken, distressed, and environmentally non-compliant Alpine system
22 and upgrading an old Woodlands system. Subsequent to 2011, almost \$14 million was
23 spent bringing Alpine/Woodlands into compliance and upgrading its operations (excluding
24 additional amounts that were required to be spent as a result of the 2015 flood), much of
25 which was spent per a memorandum of understanding between Alpine/Woodlands and
26 DHEC for capital improvements needed to bring its facilities into environmental regulatory
27 compliance. Alpine/Woodlands' service territory is centered principally around the St.
28 Andrews Road area.

29
30 **Q. PLEASE DESCRIBE THE ISSUES FACING PUI IN 2015.**

31 A. In March 2015, PUI and its Spears Creek WWTP were facing significant issues:

1. RIBs. Spears Creek WWTP was utilizing rapid infiltration basins (RIBs) to dispose of its effluent. This practice was vehemently opposed by Kershaw County, to the point that Kershaw County was threatening lawsuits against PUI. The most cost-effective alternative, discharging into nearby Spears Creek, was likewise vehemently opposed by Kershaw County.
2. Growth. PUI's territory was growing rapidly, such that its capacity would soon be strained. Exacerbating this situation was the need to move the PRC effluent onto the PUI system to avoid the City's 126% increase in its wholesale rate

Q. WHAT DID PUI DO IN RESPONSE TO THESE ISSUES?

A. In response, PUI invested a total of approximately \$80 million in capital expenditures ("capx") in connection with its "Northern Pipeline Project". This project consisted of the three basic components, all of which were recognized by the Commission in PUI's 2017 Rate Case:

1. PUI constructed the "Northern Pipeline" (at a cost of roughly \$44 million), which in addition to connecting PRC to PUI, opened up vast areas to new development and potential new customers. It also refurbished portions of PUI's collection system and key pump stations;
2. PUI constructed a 15-mile long pipeline from the Spears Creek WWTP to the Wateree River (at a cost of \$19 million);
3. Lastly, PUI expanded Spears Creek WWTP from 6 MGD to 12 MGD, and improved its treatment processes (at a cost of roughly \$15 million) to allow discharge into the Wateree River instead of disposal in the RIBs.

The net effect of the Northern Pipeline Project to address the issues faced was to create new opportunities for future growth, which will mitigate the impact of future rate increases. In fact, PUI expects only modest maintenance capx for the foreseeable future.

Q. WHAT HAS BEEN THE ECONOMIC REALITY OF PUI'S INVESTMENT?

A. Since March 2015, PUI has invested \$80 million in capx that is used/useful. None of it was optional or made economic sense to postpone. Thus, in no way was this a VC Summer situation. In the last rate case, PUI only received a 3.5% incremental return on the \$80 million of investment and 0% on the \$18 million in PRC assets.

1 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

2 A. Yes, it does.